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In the Supreme Court of the United States

OCTOBER TERM, 1964

No. —

UNITED STATES OF AMERICA, APPELLANT

v.

HUCK MANUFACTURING COMPANY AND TOWNSEND COMPANY

ON APPEAL FROM THE UNITED STATES DISTRICT COURT FOR THE EASTERN DISTRICT OF MICHIGAN, SOUTHERN DIVISION

JURISDICTIONAL STATEMENT

OPINION BELOW

The opinion of the district court, comprising its findings of fact and conclusions of law (Appendix A, *infra*), is reported at 227 F. Supp. 791.

JURISDICTION

The judgment of the district court was entered on July 17, 1964, *nunc pro tunc* as of February 28, 1964 (Appendix B). Notices of appeal were filed by the

United States on April 27, 1964, and on August 13, 1964.[1] The time for docketing the appeal was extended by the court below until September 25, 1964. The jurisdiction of this Court is conferred by Section 2 of the Expediting Act of February 11, 1903, 32 Stat. 823, as amended, 15 U.S.C. 29. *United States* v. *du Pont & Co.*, 353 U.S. 586; *United States* v. *Columbia Steel Co.*, 334 U.S. 495.

QUESTIONS PRESENTED

1. Whether this Court should overrule the holding in *United States* v. *General Electric Company*, 272 U.S. 476, that an agreement by which a patentee grants a license to make the patented article on condition that the licensee maintain its prices at a level set by the patentee, does not violate the Sherman Act.

2. Whether, even if *General Electric* is not overruled, an agreement by a patentee not to grant additional licenses as long as its licensee follows the prices which it sets, contravenes section 1 of the Sherman Act.

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[1] Appellant erroneously believed that judgment pursuant to Rule 58, Federal Rules of Civil Procedure, had been entered by the court below on February 28, 1964, and filed its notice of appeal therefrom. After appellant learned, and pointed out to the court below, that in fact no such judgment had been entered, the district court, on July 17th, entered judgment *nunc pro tunc* as of February 28th. As a protective measure, the United States filed an additional notice of appeal on August 13, 1964.

STATUTE INVOLVED

Section 1 of the Sherman Act, 26 Stat. 209, as amended, 50 Stat. 693, 69 Stat. 282, 15 U.S.C. 1, provides in pertinent part:

> Every contract, combination in the form of trust or otherwise, or conspiracy, in restraint of trade or commerce among the several States, or with foreign nations, is declared to be illegal * * *.

STATEMENT

1. This is a direct appeal from a final judgment of the district court dismissing the government's civil antitrust suit against Huck Manufacturing Company ("Huck") and Townsend Company ("Townsend"). The complaint alleged that the two companies had violated Sections 1 and 2 of the Sherman Act by restraining trade and conspiring to monopolize the manufacture and sale of patented lockbolts,[2] which are metal fastening devices used principally in the construction of aircraft (Finding No. 7, App. 9a). The basic charge was that Huck (the patentee) and Townsend, its licensee, had agreed that Townsend would sell the patented products at the prices and on the terms and conditions fixed by Huck, and Huck would issue no additional licenses under its patents. An earlier criminal proceeding[3] involving the same

[2] Huck is the owner of United States Patents Nos. 2,531,048 and 2,531,049, dated November 21, 1950, covering lockbolts (Finding No. 10, App. 10a). The validity of these patents is not contested here.

[3] 214 F. Supp. 776.

charge, had been dismissed by another district judge at the conclusion of the government's case on the ground that the facts established did not constitute violations of Section 1 of the Sherman Act without evidence that the advantage acquired by the defendants as a result of their agreements was more than a normal and reasonable reward to a patentee.[4] The court did find, however, that the government had established, at least prima facie, that the parties had made an oral agreement under which Townsend would observe Huck's published prices and Huck would withhold further licenses. By stipulation of the parties the record in the criminal case was introduced into evidence as the government's case-in-chief in this civil action. On that record Judge Machrowicz granted defendants' motions to dismiss under Rule 41(b), Federal Rules of Civil Procedure (App. 30a).

Although the defense has not yet put in its case, Huck and Townsend vigorously deny the existence of the oral agreement to fix prices and maintain the exclusivity of Townsend's license.[5] The district court

[4] The allegation of a violation of Section 2 was also rejected, on the ground that the government "declined" to introduce proof of market structure. We are not challenging the district court's ruling on the Section 2 charge.

[5] While the district court refers, in Finding No. 16 (App. 15a), only to the "verbal agreement * * * which the Government contends was entered into," the last sentence of that same Finding appears to assume the existence of such oral concurrence:

"The verbal agreement was no more than the exercise by Huck of its right as the patent owner of the lockbolt patents to grant or extend an exclusive license to another (in this case, Townsend) for the unexpired term of those patents and

concluded that "upon the evidence submitted * * * the case at bar is in all material respects the same as and ruled by the decision in *U.S.* v. *General Electric Co.* * * * " (Conclusion VII, App. 28a). It further ruled that "there is no violation of the Sherman Act by Huck's establishment of the prices, terms and conditions of sale for the patented lockbolts and the following thereof by the licensee, Townsend, for it is established law under the *General Electric* case, that it is not a violation of the Sherman Act for a licensee to follow the prices, terms and conditions of sale of the patent owner, by agreement to do so" (Conclusion III, App. 26a).

2. The government's evidence established the following facts:

Huck manufactures lockbolts and sells them throughout the United States, primarily for use in aircraft construction (Findings Nos. 3, 7, App. 8a, 9a). Its domestic sales of that product in 1960 amounted to approximately $3½ million (GX–80). Townsend, which was a Pennsylvania corporation when this suit was filed, is now a division of Textron Industries, Inc., and manufactures lockbolts at plants in California and Pennsylvania (Findings Nos. 2, 4, App. 8a). Its lockbolt sales in 1960 were approximately $2,399,873 (GX–103).

In the latter part of 1950, appellee Townsend, without obtaining a license from Huck, began to manufac-

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to require as a condition thereof that its licensee sell the patented lockbolts, which it could legally manufacture only under the license, upon the terms and conditions of sale and price established by Huck and the exercise by Townsend of its right to agree to and accept such a patent license."

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ture and sell lockbolts in competition with Huck.[6] Soon afterward, Townsend decided that it should not risk a suit for patent infringement brought by Huck, which might invalidate the patents and open the field to other fastener manufacturers (GX–95); accordingly, it requested a lockbolt license from Huck. Refusing the request, Huck brought an action for infringement against Townsend. The district court found the patents to be valid and infringed by Townsend, and the latter filed a notice of appeal on May 27, 1953 (Finding No. 12, App. 10a); GX–25).

Despite its legal victory, Huck remained apprehensive about the existence of Townsend as a competitor, and particularly about the possibility that Townsend might develop a fastener that would serve the same purposes as a lockbolt but not infringe Huck's patents (Tr. 193, 509–510; GX–26, 27). Thus, when Townsend in 1953 again sought a license to manufacture and sell lockbolts, Huck gave the matter serious consideration. It made extensive analyses of the advantages and disadvantages of granting a license, noting, among other factors, that its position as the sole supplier of lockbolts placed it at a disadvantage in negotiating labor contracts; but, on the other hand, that unless there were price restrictions forbidding the licensee to sell appreciably below Huck's published prices the company could suffer badly in competition because of its high labor rates and other costs, and that Townsend appeared capable of pro-

[6] The Cherry Rivet Company, which merged with Townsend on January 1, 1951, actually began the manufacture of lockbolts prior to that date.

ducing and selling lockbolts at a price much lower than that of Huck (Tr. 192, 515; GX–27). Townsend, for its part, recognized that to receive a license from Huck would be more advantageous than to have the patents invalidated on appeal because, with Townsend as the sole licensee, the two companies would be able to control the lockbolt market and discourage potential competitors (Finding Nos. 12, 13, App. 10a, 11a; Tr. 876–77; GX–95).

Negotiations between the two companies, looking toward the grant of a license to Townsend, began in the spring or summer of 1954 (Tr. 199). During that period, at a meeting of the presidents of the two companies in the office of Huck's attorney in Detroit, there was a general discussion of the various provisions of the contemplated license. Royalties, patent validity, and licensing of improvements were all considered and tentative agreements reached as to each. In addition, the parties agreed that for a two-year period, Townsend would follow Huck's lockbolt prices and Huck would not license any other firms (Tr. 202–205). Toward the latter part of the meeting, the President of Townsend, Mr. Dickenson, asked the attorneys to leave the room, stating that the others wanted "to talk business" (Tr. 206).

The executives then continued negotiations. Mr. Dickenson stated that they all were aware that the proposed agreement did not satisfy either Townsend's desire for a license which would be exclusive for the life of the patents, or Huck's desire for a price maintenance provision covering the same period.

He therefore proposed "'a supplementary verbal agreement" whereby Townsend would observe Huck's published lockbolt prices during the life of the patents if Huck refrained from licensing potential competitors of Townsend (Tr. 211–212). Mr. Armour, President of Huck, accepted this proposal, promising, in turn, that Huck would not issue further licenses (except for lockbolts of a type which neither company wished to produce) so long as Townsend continued to adhere to Huck's prices (Finding No. 16, App. 15a; Tr. 212, 214, 217). Thus, in effect, the exclusive licensing and price maintenance provisions were extended by verbal agreement for the life of the patents.[7]

On September 14, 1954, Huck and Townsend exe-

[7] Testimony as to the making of the oral agreement was given by a government witness, Robert Looker. Looker, stepson of Louis Huck, inventor of the lockbolt, had been employed by Huck from 1947 until 1956, at which time he was Vice-President in Charge of Sales, and supervisor, in conjunction with the firm's attorneys, of Huck's patent matters (Tr. 189). After leaving Huck, Looker assumed the presidency of Brown-Line Corporation, which manufactured fastening devices for aircraft interiors, and unsuccessfully sought a license from Huck for lockbolts not manufactured by Huck (Tr. 408; GX–60). Brown-Line Corporation has subsequently filed an action against Huck and Townsend seeking treble damages for alleged violations of the Sherman Act.

Looker testified that he was present at the meeting which culminated in the verbal agreement described above (Tr. 199).

The court below indicated some dissatisfaction with Looker's testimony, on the basis of his interest in the outcome of the litigation and suggested some circumstantial inconsistencies in the testimony (Finding No. 15, App. 14a, 15a). But the court did not find that Looker's testimony was untruthful, and in the criminal trial Judge Kaess, who actually heard and saw the witness, found that the agreement was proved *prima facie* (214 F. Supp. at 777).

cuted a written license agreement (GX–17). Three days later they jointly stipulated to dismiss Townsend's appeal from the judgment in the infringement suit (Finding No. 12, App. 11a; GX–33). Under the written terms of this contract, which was to run for the life of the patents, at a stated royalty, Townsend granted a non-exclusive cross-license to Huck on any improvements on lockbolts developed or acquired by Townsend, as well as on lockbolt devices which were substitutes for Huck's lockbolts; Huck agreed to make its license to Townsend exclusive for the first two years, while Townsend agreed, during the same two-year period, not to sell below the prices on lockbolts set by Huck's published schedules (Finding No. 14, App. 11a–13a; GX–17).[8]

Since that time, as the court below found, Huck has granted no additional licenses for the manufacture and sale of the general line of lockbolts (Fdg. 22, App. 17a).[9] And Townsend has in fact maintained its prices substantially at the levels set by Huck (Fdg. 18, App. 15a, 16a).

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[8] Subsequently, Huck and Townsend entered into further agreements to cross-license products related to lockbolts. These were the Lockbolt Stump License of 1955 (GX–19); the Blind Lockbolt License of 1958 (GX–72); the Lockbolt Installation Tool Cross License of 1958 (GX–70); and the Lockbolt Installation Tool Cross-Sales Agreement of 1958 (GX–71) (Finding No. 23, App. 17a, 18a).

[9] It has, however, granted two additional licenses to Pheoll Manufacturing Co. and Standard Pressed Steel Co. Both are limited to lockbolts made of titanium, a metal which neither Huck nor Townsend utilizes (Finding No. 22, App. 17a). The government's witness testified that licenses of that limited nature were not foreclosed by the oral agreement (Tr. 212).

THE QUESTIONS ARE SUBSTANTIAL

1. In *United States* v. *General Electric Company*, 272 U.S. 476, this Court in 1926 upheld the validity of an arrangement by which the patentee granted a license to make the patented article on condition that the licensee agreed to maintain its prices at a level set by the patentee. The Court ruled that such price-fixing was within the permissible scope of the patent monopoly because it was "normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly" (p. 490), and therefore did not violate the Sherman Act. In the 1947 Term, the government urged that *General Electric* should be overruled, but an equally divided Court declined. *United States* v. *Line Material Co.*, 333 U.S. 287. The government's experience with the operation of the *General Electric* rule since that time has further convinced us of the unsoundness of that decision. In these circumstances, the government again urges the Court to re-examine *General Electric* and to overrule it.[10]

[10] The appellees will presumably argue that the government should not be permitted to urge the overruling of *General Electric* in this Court because it allegedly waived the issue below. That contention will be based upon the following circumstances:

Subsequent to entry of the judgment below and filing of the notice of appeal, the district court granted the defendants' motion to supplement the record by adding two pre-trial orders. These orders had been drafted by that court in 1962, submitted to counsel for suggestions, and signed by Judge Machrowicz, but (contrary to the belief of all counsel) had not been entered on the record. The government did not object to this much of the motion. In addition, at the request of defendants and over the government's objection, the district court added the following statement to one of the pretrial orders (see App. C, infra, pp. 32a–38a):

"On October 15, reporting on the applicability of the General Electric case, the Government stated that it is not attempting to have the doctrine set in the General Electric case over-

General Electric rested upon an erroneous view of the nature of the patent monopoly. The owner of a patent derives no more from his statutory grant

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ruled and stated only that facts in this case do not fall within that doctrine; that the doctrine is still good law but does not apply as the actions in this case are illegal without application of the doctrine; and that it will write a letter by December 29, describing in what way the facts of this case differ from the facts of the General Electric case. A copy of the letter to the Court, dated October 30, 1962, from the Assistant Attorney General of the United States, Antitrust Division of the Department of Justice, is attached hereto and made a part hereof." The letter referred to by the court sets forth the government's reasons for believing that the facts of this case do not fall within the *General Electric* doctrine (see, *infra*, p. 39a).

This addition to the pre-trial order ought not preclude the plenary consideration by this Court of the important question whether *General Electric* should be overruled. See *Kiefer-Stewart Co.* v. *Seagram & Sons*, 340 U.S. 211; *Graham* v. *Brotherhood of Locomotive Firemen*, 338 U.S. 232, 237. The government's statement that it was not challenging *General Electric* must be interpreted in the light of the circumstances under which it was made. Viewed in that light, it merely expressed the obvious point that the government could not properly have urged the district court not to follow *General Electric*, let alone to "overrule" it. For until this Court has spoken, its outstanding decisions are undeniably binding upon the lower courts. *Lichter Foundation, Inc.* v. *Welch*, 269 F. 2d 142, 145 (C.A. 6); *Hunt* v. *Arnold*, 172 F. Supp. 847, 856 (N.D. Ga.); *Douglas* v. *Wisconsin Alumni Research Foundation*, 81 F. Supp. 167, 170 (N.D. Ill.); *Colegrove* v. *Green*, 64 F. Supp. 632, 634 (N.D. Ill.); *Travelers Mut. Casualty Co.* v. *Skeer*, 24 F. Supp. 805 (W.D. Mo.), appeal dismissed, 106 F. 2d 1017, 1018; *New Jersey Zinc Co.* v. *Singmaster*, 4 F. Supp. 967 (S.D.N.Y.), modified on other grounds 71 F. 2d 277 (C.A. 2), certiorari denied, 293 U.S. 591. Nor can it be argued that the appellees were prejudiced in the presentation of their defense by any belief that the government would not challenge the General Electric rule in this Court. Judgment below was entered on the appellees' motion to dismiss at the end of the government's case. Thus they have not yet had occasion to adduce evidence in support of their defenses.

than the right "to exclude others from making, using, or selling the invention throughout the United States" (35 U.S.C. 154). In return for a royalty, he may agree to waive that right of exclusion, permitting a licensee to manufacture the patented product free from the threat of an infringement suit. But nothing in the patent statute authorizes the patentee to demand, as an additional *quid pro quo* for waiving that right, a price-fixing agreement plainly prohibited by the anti-trust laws. In prescribing the terms and conditions on which he will refrain from enforcing his statutory monopoly, the patentee acts solely by virtue of his right as the owner of property to make contracts concerning that property; such a contract, like any other, is subject to the limitations imposed by the general law and is not exempted from those limitations by the patent statute. Cf. *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661, 666.

In a closely related context, this Court has not hesitated to repudiate early decisions under which patentees were permitted to enlarge the scope of their monopoly by means of restrictive conditions (in the form of tying clauses) in patent license agreements. See *Motion Picture Patent Co.* v. *Universal Film Mfg. Co.*, 243 U.S. 502 (overruling *Henry* v. *A. B. Dick Co.*, 224 U.S. 1); *Carbice Corporation of America* v. *American Patents Development Corp.*, 283 U.S. 27 (sharply limiting *Leeds & Catlin Co.* v. *Victor Talking Machine Company*, 213 U.S. 325); *Mercoid Corp.* v. *Mid-Continent Investment Co.*, 320 U.S. 661. Today such restrictions, whether express or implied, and

whether the tied article is patented or unpatented violate both the patent and the antitrust laws.[11] The earlier decisions had proceeded upon the premise that, since the patentee had the right to withhold his invention altogether from public use, he must necessarily have the right to allow its use on whatever conditions he might see fit to impose. The defect of that reasoning, as exposed by the Court in *Motion Picture Patents Co., supra,* 243 U.S. at 514, is that it failed to "distinguish between the rights which are given to the inventor by the patent law and which he may assert against all the world through an infringement proceeding and rights which he may create for himself by private contract which, however, are subject to the rules of general as distinguished from those of the patent law." It is precisely the same fallacy which underlies the *General Electric* rule and calls for its overruling.

General Electric also runs counter to other basic precepts. The decision was premised on the view that "the patentee may grant a license * * * upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure" (272 U.S. at 489). A price-maintenance provision was deemed to be justified on this theory because of the danger that the

[11] See *Leitch Mfg. Co.* v. *Barber Co.*, 302 U.S. 458; *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436; *International Business Machines Corp* v. *United States*, 298 U.S. 131; *Morton Salt Co.* v. *G. S. Suppiger Co.*, 314 U.S. 488; *B. B. Chemical Co.* v. *Ellis*, 314 U.S. 495; *International Salt Co.* v. *United States*, 332 U.S. 392.

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patentee might otherwise be undersold and thus forced to reduce his own prices. This approach plainly makes "the inventor's reward the prime rather than an incidental object of the patent system" (*Line Material,* 333 U.S. at 318 (concurring opinion)). It is incompatible with the principles, announced by this Court in many other cases, that the rights granted by a patent must be confined "strictly to the terms of the statutory grant" (*United States* v. *Univis Lens Co., Inc.,* 316 U.S. 241, 251); that the patent monoply may not be enlarged merely because "it would be more convenient to the patentee to have it so, or because he cannot avail himself of its benefits within the limits of the grant" (*B. B. Chemical Company* v. *Ellis,* 314 U.S. 495, 498); and that "the benefit to the public or the community at large," rather than the advantage of the patentee, was "the primary object in granting and securing that monopoly" (*Kendall* v. *Winsor,* 21 How. 322, 328).

Nor is it true that the patentee must resort to price-fixing in order to be assured of a fair reward for his invention. Like any other property, a patent may be sold or assigned for what the market will pay. Its owner may refrain from licensing and reap his reward in the form of manufacturing profits. If, instead, he elects to license a rival producer, he can secure from the licensee as great a competitive advantage as the latter is willing to concede, simply by establishing a sufficiently high royalty. Each of these alternatives, however, unlike the instant price-fixing arrangement, leaves the value of the patented product to be decided in the marketplace. And even when the

licensee is burdened by a high royalty, the public may still receive the benefit of any superior efficiencies which enable him to overcome that handicap and to sell his output at a lower price than the patentee might wish to charge if not restrained by competition.

It is no answer to say that the patentee here (and in *General Electric*) did not seek to extend his monopoly to products not embraced within the terms of the patent grant. Even though that be true, the anticompetitive effects of the price-fixing arrangement, and the market power thereby acquired by the patentee, are much greater than those which flow from the patent alone. Seldom does the patent alone shield its owner from the competition of other firms in the same industry. The rivals may challenge the validity of the patent or seek to narrow its scope; they may attempt to develop patentable inventions of their own which would accomplish the same result by a different, and perhaps better, method; or they may place on the market an unpatented but noninfringing substitute at a price which makes it attractive despite the absence of the patented feature. True, the availability of a license from the patentee, even if not accompanied by a price-fixing agreement, may remove the incentive for these more venturesome forms of competition. But neither the patent nor the license alone forecloses the possibility of vigorous price competition among the licensees and between them and the patentee. It is only by virtue of a price-maintenance agreement of the type sanctioned by *General Electric* that this important competitive possibility is elimi-

nated and the patentee thereby enabled to control the price, not only of his own output, but of the output of his potential competitors as well. Mr. Justice Douglas summed up the matter in his concurring opinion in *Line Material* (333 U.S. at 319): [12]

> The patentee creates by that method a powerful inducement for the abandonment of competition, for the cessation of litigation concerning the validity of patents, for the acceptance of patents no matter how dubious, for the abandonment of research in the development of competing patents. Those who can get stabilized markets, assured margins, and freedom from price cutting will find a price-fixing license an attractive alternative to the more arduous methods of maintaining their competitive positions. Competition tends to become impaired not by reason of the public's preference for the patented article but because of the preference of competitors for price fixing and for the increased profits which that method of doing business promises.

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[12] The anti-competitive consequences of the *General Electric* doctrine are well-illustrated by the present case. Here one of the principal considerations which induced Huck to offer the license was the fear that Townsend might "develop around" Huck's patents and thus lessen their value (GX 26, 27; Tr. 193, 509–510); the opportunity to share with Huck a sheltered market free from price competition made it unnecessary for Townsend to undertake such a development program. A further by-product of the restrictive licensing agreement was a stipulation dismissing the appeal which Townsend had filed from the adverse lower court decision in the infringement suit in which it had challenged the validity of the Huck patents (Fdg. No. 12, App. 11a; GX–33).

General Electric has long since ceased to be a vital precedent. Its scope has been narrowly confined by later decisions. See, *e.g.*, *United States* v. *Line Material Co.*, 333 U.S. 287; *United States* v. *United States Gypsum Co.*, 333 U.S. 364; *United States* v. *Masonite Corp.*, 316 U.S. 265. Cf. *Simpson* v. *Union Oil Co.*, 377 U.S. 13. Moreover, four of the eight Justices who participated in *Line Material* expressed the view that *General Electric*, even in its most limited formulation, was fundamentally incorrect and should be overruled. At that time, the Court was understandably reluctant to disturb business arrangements which had been "repeatedly, even though hesitatingly, made in reliance upon the contractor's interpretation of" *General Electric* and its antecedents (333 U.S. at 303). Today there is little ground for such solicitude. *Line Material* itself served notice upon the business community, and upon the members of the patent and antitrust bars, that *General Electric* was no longer a reliable precedent,[13] and numerous commentators have voiced doubts as to its continuing authority.[14] Since

[13] Indeed, Huck itself was aware of the doubtful authority of *General Electric* and expressed apprehension as to continued judicial approval of price-fixing in patent licenses (GX-27, first document, page 3).

[14] Wood, *Patent Combinations and the Anti-Trust Laws*, 17 George Washington Law Review 59 (1948); Diggins, *The Patent-Antitrust Problem*, 53 Mich. L. Rev. 1093 (1955); Wood and Johnson, *Patents and the Antitrust Laws*, Univ. Ill. L. Forum 544 (1950); Hollabaugh, *Patents and Antitrust Laws*, 25 Univ. Cinc. L. Rev. 43 (1956); Clapp, *Some Recent Developments in Patent-Antitrust Law*, 36 Marquette L. Rev. 143 (1952); 34 J.P.O.S. 945; Farley, *Price Fixing and Royalty Provisions in Patent Licenses*, 34 J.P.O.S. 46 (1952); Baker,

the statutory patent monopoly has a life of only 17 years, all license agreements entered into prior to *Line Material*, and thus in justifiable reliance upon *General Electric*, will have expired by 1965.[15]

In sum, *General Electric* is out of harmony with other decisions of this Court which consistently have invalidated other restrictive conditions in patent-licensing agreements. It has been a prolific source of confusion and uncertainty to business planners and has inspired a multitude of restrictive schemes which eventually were stricken down by the courts when challenged, but only after undoubted loss to the economy.[16]

Patent Rights and the Antitrust Laws, 34 J.P.O.S. 687 (1952); Swain, *Patents and Antitrust—Some Recent Developments*, 43 J.P.O.S. 251 (1961); Kligler, *Recent Judicial Limitation of the Patent License Contract*, 30 J.P.O.S. 685 (1948); Mulford, *Special Problems in Licensing Patents in the United States*, 39 J.P.O.S. 395 (1957); Celler, *Patents and Monopoly*, 38 J.P.O.S. 425 (1956).

[15] In this case, we seek only prospective relief, *i.e.*, an injunction against further enforcement of the restrictive conditions contained in the licensing agreement.

[16] The rule has been employed, for example, as a screen behind which whole industries have been regimented under price, quality, and other pervasive restraints. *United States* v. *United States Gypsum Co.*, 340 U.S. 76; *United States* v. *United States Gypsum Co.*, 333 U.S. 364; *United States* v. *Vehicular Parking, Ltd.*, 54 F. Supp. 828 (D. Del.), cf. *Standard Sanitary Mfg. Co.* v. *United States*, 226 U.S. 20. See, also, *Ethyl Gasoline Corp.* v. *United States*, 309 U.S. 436 (price control over one patented product used as a lever to control others); *Mercoid Corp.* v. *Minneapolis-Honeywell Regulator Co.*, 320 U.S. 680, 682–683 (patents upon a combination employed to fix prices on unpatented components); *Barber-Coleman Co.* v. *National Tool Co.*, 136 F. 2d 339 (C.A. 6); *Cum-*

We urge, therefore, that the Court reconsider this anomalous precedent and repudiate the rule it announced.

2. In the alternative, we submit that the agreement here in issue—whereby Huck bound itself not to grant any further unrestricted licenses so long as Townsend, its sole licensee, continued to observe Huck's prices—does not come within the purview of the *General Electric* rule and therefore violates the Sherman Act even if *General Electric* continues as a precedent. The holding in *General Electric* was merely that a patentee may exact a price maintenance agreement from his licensee in return for the privilege of making or using the patented article. Here, however, the price-fixing agreement was a *quid pro quo,* not merely for the right to produce the patented lockbolts, but

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mer-Graham Co. v. *Straight Side Basket Corp.*, 142 F. 2d 646 (C.A. 5) (process patents sold to govern prices of unpatented products); *United States* v. *General Electric Co.*, 80 F. Supp. 989 (S.D. N.Y., 1948) (patent on the tips for cutting tools used to control the price of the entire tool); *United States* v. *Line Material Co.*, 333 U.S. 287 (effort by owners of complementary patents to join forces so as to permit one to fix the prices under both patents). General Electric itself so extended the privileges which it won in the 1926 decision that it was found, 23 years later, to have unlawfully monopolized the entire incandescent lamp industry by an intricate network of practices and agreements. Although "after 1933 * * * [General Electric] had no basic and controlling patents on the manufacture of incandescent electric lamps but only improvement patents on elements constituting the completed lamp, process and machine patents, many of which are not used," had been utilized to control the entire industry. *United States* v. *General Electric Co.*, 82 F. Supp. 753, 813 (D. N.J.). We suggest that the findings in the later *General Electric* case, which were not made until after this Court's decision in *Line Material*, point to the wisdom of eliminating the last vestiges of the 1926 decision.

also for the right to restrain the patentee from issuing further licenses.[17] This Court, recognizing the anticompetitive implications of the decision, has consistently given *General Electric* a minimal scope. (See, *supra,* p. 17.) In keeping with that approach, *General Electric* should not be held in the present case to legitimatize a license agreement in which price fixing is combined with a patentee's commitment not to deal with others, these restraints serving as reciprocal inducements. In sum, the present case presents yet another situation in which businessmen—relying, albeit hesitantly, upon *General Electric*—have adopted restrictions which go beyond the letter of that decision. The case thus provides not only a further occasion for limiting *General Electric,* but additional reason, if any were needed, for overruling it.

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[17] Indeed, any agreement whereby the patentee surrenders his freedom to license others is of doubtful validity even when price fixing is not involved. See *United States* v. *Besser Manufacturing Company*, 96 F. Supp. 304, 311 (E.D. Mich.), affirmed, 343 U.S. 444; *United States* v. *Krasnov*, 143 F. Supp. 184, 201–202 (E.D. Pa.), affirmed, 355 U.S. 5; cf. *Blount Mfg. Co.* v. *Yale & Towne Mfg. Co.*, 166 Fed. 555, 559 (D. Mass.).

CONCLUSION

This appeal presents substantial questions of public importance. Probable jurisdiction should be noted.

Respectfully submitted.

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SEPTEMBER 1964.

744-912—64——4

APPENDIX A

United States District Court, Eastern District of Michigan, Southern Division

Civil Action No. 21791

UNITED STATES OF AMERICA, PLAINTIFF

v.

HUCK MANUFACTURING COMPANY AND TOWNSEND COMPANY, DEFENDANTS

FINDINGS OF FACT AND CONCLUSIONS OF LAW UPON DISMISSAL UNDER RULE 41(b) OF THE FEDERAL RULES OF CIVIL PROCEDURE

STATUS OF CASE

This is a civil action upon complaint of United States of America against the defendants under 15 USC 4 to prevent and restrain alleged combination and conspiracy by defendants in violation of the Sherman Act, 15 USC 1 and 2.

Jurisdiction of the subject matter hereof and proper venue of the parties hereto duly appear and are conceded by the parties.

On the date of filing the Complaint herein, October 24, 1961, plaintiff also instituted criminal action No. 39017 in this Court on indictment of the defendants for the same alleged violations of the Sherman Act that are alleged in this civil action.

The criminal action was tried before the Honorable Fred W. Kaess, U.S. District Judge in this Court, and a jury, February 26, 1963 through March 12, 1963. At the close of the Government's case on March 13, 1963, the defendants moved the Court for judgments of acquittal, which were granted, on the ground that the Government had not by its evidence established the Sherman Act violations alleged in the indictment. The opinion and order contained the following paragraph, summarizing the reason for the granting of the motion for judgment of acquittal

> "To conclude, it has not been shown that the object of defendants' patent arrangement was to secure a greater reward than that attributable to the superiority of the products, or to achieve monopoly power."

Thereafter by stipulation of the parties herein, the record of proceedings in the said criminal action, No. 39017, was introduced in evidence in this civil action subject to all the objections appearing therein, as constituting the Government's case in chief in this action, on which the Government rests; it being further stipulated that the defendants in this action may move for dismissal of this action on that record, pursuant to the Federal Rules of Civil Procedure. The applicable rule is Rule 41(b), providing that:

> "After the plaintiff, in an action tried by the Court without a jury has completed the presentation of his evidence the defendant, without waiving his right to offer evidence in the event the motion is not granted, may move for a dismissal on the ground that upon the facts and the law the plaintiff has shown no right to relief. The Court as trier of the facts may then determine them and render judgment against the plaintiff or may decline to render any judgment until the close of all the evidence.

If the Court renders judgment on the merits against the plaintiff, the Court shall make findings as provided in Rule 52(a)."

THE PLEADINGS

The Complaint in this case (Par. 14) alleges that:

"Beginning at least as early as 1954, the exact date being to the plaintiff unknown, and continuing thereafter up to and including the date of the filing of this complaint, the defendants have engaged in a combination and conspiracy in unreasonable restraint of trade and to monopolize the aforesaid interstate trade and commerce in lockbolts in violation of Sections 1 and 2 of the Sherman Act. The unlawful combination and conspiracy is continuing and will continue unless the relief hereinafter prayed for is granted."

The Complaint further alleges (Par. 15):

"The aforesaid combination and conspiracy has consisted of a continuing agreement, understanding and concert of action among the defendants, the substantial terms of which have been and are:

"(a) to fix and maintain prices, terms and conditions for the sale of lockbolts manufactured in the United States by defendants who are the only producers of a general line of lockbolts;

"(b) To limit the number of licensees permitted to manufacture lockbolts;

"(c) To require the consent of the only general licensee before the patent owner is allowed to license any other firm for the production of its general line of lockbolts;

"(d) To have the defendants who are the two dominant manufacturers of lockbolts cross license each other on all improvements of and substitutes for lockbolts which might in the future be developed by either defendant."

The Complaint (Par. 5) defines "lockbolt" to mean a two-part metal fastening device used to permanently join together two or more pieces of metal in the manner illustrated by Appendices "A" and "B" attached to the Complaint.

The Complaint further alleges (Par. 6) that lockbolts are patented devices, are produced in various shapes and sizes depending on the use for which they are intended, and are constructed of a number of different metals including alloy steels, aluminum and titanium.

The Complaint (Par. 7–10) states that the majority of all lockbolts are designed for use in the airframe manufacturing industry, and are used to hold together the wings and body of aircraft; also in manufacture of truck trailers, house trailers, railroad cars and ships, United States naval vessels, and other industrial applications where formerly a nut and bolt or rivet or other fastener would have been used. That a lockbolt is superior to the ordinary rivet in that the lockbolt pin can be made of metal strong enough to withstand sheering action; that unlike the rivet the lockbolt pulls together the pieces of metal being joined and eliminates sheet-gap; that unlike a nut and bolt a lockbolt cannot be loosened by vibration or passage of time. That other devices also used to join pieces of metal have not the peculiar advantages of lockbolts; that in the aircraft manufacturing industry, once the lockbolt has been specified by the manufacturer's engineering staff, other devices cannot thereafter readily be substituted.

The Complaint further states (Par. 11) that lockbolts are manufactured and sold by defendant, Huck Manufacturing Company, under patents assigned to it. That Huck Manufacturing Company has licensed defendant Townsend Company to manufacture and sell a general line of lockbolts and has also licensed two other firms to manufacture and sell lockbolts of titanium only.

The Complaint (Par. 13) further states that lockbolts sold in the United States in recent years were valued at approximately Sixteen Million Dollars ($16,000,000.00) annually.

Defendants, answering the Complaint, deny that they have or are engaged in a combination and conspiracy in unreasonable restraint of trade and to monopolize interstate trade and commerce in lockbolts in violation of Sections 1 and 2 of the Sherman Act, deny that the alleged unlawful combination and conspiracy is continuing and will continue, and deny paragraphs 15, 16 and 17 of the Complaint, alleging respectively a continuing agreement, understanding and concerted action among defendants constituting the alleged unlawful combination and conspiracy; and deny that in formulating and effectuating the alleged unlawful combination and conspiracy they have entered into the various agreements and done various things and performed the various acts alleged in paragraph 16 of the Complaint, and deny the effects of the alleged unlawful combination and conspiracy alleged in paragraph 17 of the Complaint, and deny that plaintiffs are entitled to relief demanded by the Complaint.

Defendants, by answer, admit that lockbolts are patented devices, that they are manufactured and sold by defendant Huck Manufacturing Company under

patents assigned to it, and that Huck Manufacturing Company has licensed defendant Townsend Company under such patents; that the major portion of lockbolts produced by defendants are designed to meet the standards of the airplane industry and that the same are used in the construction of aircraft; aver that lockbolts are a small proportion of fastening devices used in the construction of aircraft; admit that lockbolts are used in the manufacture and repair of truck trailers, house trailers, railroad cars and ships, including United States naval vessels, and other industrial applications; and aver that many types of fasteners other than lockbolts are likewise used; aver that lockbolts have some advantages over other devices used to join individual pieces of metal, and that other devices used to join individual pieces of metal have advantages that lockbolts do not have; aver that the aircraft manufacturers have a choice of fastening devices to be used to fasten together the parts of any airplane under design and admit that whatever fastening devices are chosen, other fastening devices cannot thereafter be readily substituted, and aver that this holds true whether a lockbolt is to be substituted for another fastening device originally selected or whether another fastening device is to be substituted for the lockbolt originally selected.

The contention of the Government that emerges from pleadings, evidence and arguments and briefs in this case is that violations of Sections 1 and 2 of the Sherman Act have occurred by reason of alleged combination and conspiracy by and between defendants in unreasonable restraint of trade and to monopolize interstate trade and commerce in lockbolts conceded to be subject of and covered by valid and subsisting United States patents owned by defendant Huck Manufacturing Company, by reason of alleged

illegality of license agreement between Huck between defendants that Huck would not license any third parties under its lockbolt patents, except for special kinds of lockbolts subject to those patents that neither Huck nor Townsend were interested in manufacturing, in return for Townsend's agreement to follow Huck's prices, terms and conditions of sale for the patented lockbolts, for so long as Huck did not license any third parties to manufacture and sell Huck's patented lockbolts; that Huck thereby illlegally restrained itself from granting licenses to others to manufacture and sell under its lockbolt patents; and that the prices, terms and conditions of sale for the patented lockbolts were illegally fixed by the parties.

The defendants contend that the licensing arrangements between themselves are valid and legal and that their operations under the license agreement do not exceed the bounds of that conduct permitted to a patentee and licensee under valid patents as set forth in *United States* v. *General Electric Co.*, 272 U.S. 476 (1926), *Ethyl Gasoline Corp.* v. *U.S.* 309 U.S., 436, 456; *United States* v. *E. I. du Pont de Nemours & Co.*, 118 F. Supp. 41, 224, D.C. Del.; *Transparent-Wrap Machine Corporation* v. *Stokes & Smith Company*, 329 U.S. 637, 645–648; *Binks Manufacturing Co.*, v. *Ransburg Electro-Coating Corp.*, 281 F. 2d 252, 259 (C.A. 7).

No jury having been demanded by any of the parties in the cause, and the defendants having duly moved under Rule 41(b) for dismissal of the action on the ground that upon the facts and the law the plaintiff has shown no right to relief, and the Court as trier of the facts having duly heard the said motion in open court, upon the evidence presented by the plaintiff and having duly considered the evidence, the arguments of counsel for the respective parties in

open court with respect thereto, and the briefs presented and filed by the respective parties with respect thereto, has determined the facts and now renders judgment against the plaintiff, and hereby makes its findings of fact and its conclusions of law thereon and directs entry of the appropriate judgment thereon as provided in Rule 52(a).

Findings of Fact

1. Huck Manufacturing Company (hereinafter referred to as "Huck") is a corporation organized and existing under the laws of the State of Michigan, with general offices and principal place of business at 2500 Bellevue Avenue, Detroit, Michigan. Huck transacts business within the Eastern District of Michigan, Southern Division.

2. Townsend Company was at the beginning of this suit a corporation organized and existing under the laws of the Commonwealth of Pennsylvania. It is now a Division of Textron Industries, Inc., a corporation organized and existing under the laws of the State of Delaware. The Townsend Company Division has general offices and its principal place of business in Beaver Falls, Pennsylvania. (Wherever hereinafter used, the name "Townsend" refers to Townsend Company, whatever its corporate organization at that time.) Townsend transacts business within the Eastern District of Michigan, Southern Division.

3. Huck manufactures the lockbolts in Detroit, Michigan, and sells the same throughout the State of Michigan and throughout the United States. (Complaint, Par. 3; R. 142.)

4. Townsend manufactures the lockbolts in plants in Santa Ana, California, and Ellwood City, Pennsylvania. Townsend sells the same throughout the State

of Michigan and throughout the United States. (Complaint, Par. 3.)

5. The "lockbolt" is a two-part metal fastening device used to join together permanently two or more pieces of metal. The two parts are a "lockbolt pin" and a "lockbolt collar." The "lockbolt pin" is a metal pin having an enlarged head which abuts against one of the members being joined, a grooved portion about which the lockbolt collar is swaged and a grooved pintail which is gripped, pulled and broken off as the collar is swaged. The "lockbolt collar" is a cylindrical piece of metal designed to slip over the lockbolt pin and be swaged into its grooves. (Complaint, Par. 5, Appendices "A" and "B" attached to the Complaint; Townsend Answer, Par. 5; Huck Answer, Par. 5; R. 147-152.)

6. Lockbolts are patented devices used to fasten together two or more pieces of metal. They are produced in various shapes and sizes depending on the use for which they are intended, and are constructed of a number of different metals including alloy steels, aluminum and titanium. (Complaint, Par. 6.)

7. Lockbolts are used in the airframe manufacturing industry in the production of military and civilian jet and propeller-driven aircraft, in the manufacture and repair of truck trailers, house trailer, railroad cars and ships, including United States naval vessels, and in other industrial applications. The major portion of lockbolts manufactured by both defendants are used in the airframe manufacturing industry. (Townsend Answer, Par. 7; Huck Answer, Par. 7; R. 172.)

8. Total sales of lockbolts in the United States by Huck and Townsend in the year 1960 amounted to Five Million Nine Hundred Seventy-seven Thousand Five Hundred Ninety-three and 96/100 Dollars ($5,977,593.96). (Exhibit 80 and 103.)

9. Several types of fasteners other than lockbolts are used and usable for the same purposes as lockbolts (R. 822–24).

10. The lockbolt was invented by Louis Huck, President and then principal stockholder of Huck Manufacturing Company. Huck Manufacturing Company is the owner of United States Patents Nos. 2,531,048 and 2,531,049 dated November 21, 1950, covering the lockbolts. These patents are conceded to be valid, subsisting and enforceable. (Pre-Trial Order covering Pre-Trial conference of October 1, 1962.)

11. The lockbolts are and since 1950 have been manufactured and sold by Huck under the above-described lockbolt patents.

12. In 1951, after defendant Huck had entered upon the manufacture and sale of its patented lockbolts, defendant Townsend copied those lockbolts and entered into the manufacturing and sale thereof in competition with Huck by infringing Huck's lockbolt patents; that Huck, then refusing to grant Townsend a license under its lockbolt patents, sued Townsend for infringement thereof, obtained in 1952–1953 a decision and judgment against Townsend, holding the patents to be valid and infringed by Townsend; that Townsend then again sought license under the patents and took an appeal from the judgment against it, and ceased the manufacture and sale of the lockbolts; that during the pendency of the appeal Huck, confronted by demand of its customers for a second source of supply for said lockbolts, and encountering delay in meeting delivery dates specified by its customers (R. 194, 197), reconsidered the advisability of granting Townsend's continued request for a license, and finally after negotiations with Townsend in the summer of 1954 did grant Townsend a written license under Huck lockbolt patents, dated September 14,

1954, which is Government Exhibit GX 17; and that after the grant of the license GX 17 Townsend's appeal from the judgment against it was dismissed, and the patent infringement suit pending between the parties thereby terminated.

13. In the negotiations between the parties in the summer of 1954, Huck took the position that it wanted to issue no more licenses under lockbolt patents than it believed would adequately supply the demand for the patented lockbolts and alleviate the difficulties it faced, namely, the demand of customers for a second source of supply, and delay in meeting delivery dates specified by the customers (Exhibits GX 74; 104). Townsend wanted to obtain an exclusive license under the lockbolt patents except for retention by Huck of its own right under the patents to manufacture and sell the lockbolts, and thereby obtain for Townsend as much as it could of the business of manufacturing and selling the patented lockbolts (R. 211–213, 875–877).

14. The written license GX 17 includes the Huck lockbolt patents Nos. 2,531,048 and 2,531,049 granted November 21, 1950, expiring November 21, 1967, which were held valid and infringed by Townsend in the patent infringement suit between Huck and Townsend, grants Townsend a nonexclusive license to manufacture and sell lockbolts, improvements thereon and substitutes therefor of the same type covered by the licensed patents (Par. 1) for which Townsend agrees to pay Huck a royalty of five percent (5%) of the net selling price of the lockbolts manufactured and sold by Townsend and covered by the licensed patents (Par. 2), provides that Townsend grants Huck a nonexclusive royalty-free license with right to sublicense improvements on the lockbolts made or acquired by Townsend during the life of the license

(Par. 8); provides that Townsend shall use its best efforts to manufacture and sell lockbolts up to at least 9/16" pin diameter (Par. 9); provides that for lockbolts sold by Townsend as Huck equals with pin diameter up to 3/8" Townsend shall maintain Huck's quality for full equivalence in shear tension and fatigue (Par. 10); provides that Townsend will identify the lockbolts manufactured and sold by it to distinguish them from the lockbolts manufactured and sold by Huck (Par. 11); that Huck will furnish Townsend drawings and specifications it has for the lockbolts and know-how it has for the production of the lockbolts, and that Townsend will furnish Huck with know-how it may develop for the production of the lockbolts (Par. 17); provides that as Townsend will be required to expend considerable money to provide facilities for entering the manufacture and sale of lockbolts (Par. 12), that for the first two years the license shall be exclusive to Huck and Townsend except in case of national emergency (Par. 12a), and that Townsend during the two-year exclusive period shall maintain at least Huck's prices on lockbolts manufactured and sold by Huck according to Huck's published current price schedule as changed from time to time and computed according to Huck's published Standard Pricing Policy, and prescribed freight charge computation (Par. 12b); provides that Townsend may cancel the agreement at any time on six months' notice in writing to Huck (Par. 13); and (Par. 16) that unless previously terminated by Huck in the event of Townsend's failure to pay royalties or breach of any material provision of the agreement (Par. 6); or by cancellation by Townsend (Par. 13), the agreement and license shall extend for the full

term of the United States Letters Patent which are or may be included in the agreement.

15. The Government adduced testimony from its principal witness Looker, a former employee and officer of Huck Manufacturing Company, to the effect that there was a verbal agreement between defendants Huck and Townsend, supplemental to the written patent license agreement GX 17 of September 14, 1954, that was in substance that Huck would continue the lockbolt patent license GX 17 exclusive to Townsend, and not grant licenses under the lockbolt patents to others so long as Townsend, for the patented lockbolts it manufactured and sold, maintained Huck's established prices on the lockbolts which Huck manufactured and sold.

It is the testimony of Looker that this alleged verbal agreement was made between Armour, President of Huck, and Dickenson, President of Townsend, at a meeting which occurred in the summer of 1954, during negotiations for and prior to the time the written lockbolt patent license GX 17 of September 14, 1954 was completed and signed by the parties.

Looker, after graduating from the Naval Academy and a short term of active service in the Navy, left the service in September, 1947, and became employed by defendant Huck Manufacturing Company under his stepfather Louis C. Huck, who was at that time President of Huck Manufacturing Company, first serving as a clerk in the sales office, then as manager of technical publications until 1952, then as Sales Manager until May, 1954, then as Vice President in Charge of Sales until August, 1956, when he voluntarily resigned upon acquiring an interest in the Brown-Line Corporation of El Segundo, California, in association with Milton A. Miner, then West Coast Sales Representative of Huck Manufacturing Com-

pany. Looker assumed presidency of the Brown-Line Corporation which was engaged in the manufacture of devices for holding down cargo, seats, etc., in airplanes. Looker, upon leaving Huck Manufacturing Company, endeavored to obtain a license for the Brown-Line Corporation from Huck Manufacturing Company under the Huck lockbolt patents. Huck Manufacturing Company refused to grant the license, but Looker continued his endeavors to obtain such license. These efforts being unsuccessful, he initiated in the Department of Justice and pressed and followed up the action of the Department which culminated in the criminal action No. 39017 and this present civil action. Prior to the trial of the criminal action, Looker caused the institution of suit in the United States District Court for the Southern District of California by Brown-Line Corporation against the defendants Huck Manufacturing Company and Townsend Company under 15 USC 15 for treble damages on account of alleged violation of the Sherman Act.

Subsequent to the grant of the lockbolt patent license by Huck Manufacturing Company to Townsend Company, GX 17 dated September 14, 1954, and prior to his resignation from Huck in 1956, Looker, inconsistent with his present contention that Huck was prohibited from granting licenses under its lockbolt patents to others than Townsend by the alleged verbal agreement with Townsend, recognized (R. 566) that Huck Manufacturing Company was free to grant such licenses. He issued memoranda (Ex. DXY; GX 59) while employed by Huck during the period subsequent to the granting of the license GX 17 on September 14, 1954, contemplating the grant of such licenses, and also immediately upon leaving the employ of Huck and assuming the presidency of Brown-

Line Corporation in 1956 sought such license from Huck for Brown-Line Corporation.

16. The verbal agreement or understanding which the Government contends was entered into by the parties as part of the written license agreement GX 17, completed and signed by the parties as of September 14, 1954, was in purport and effect to make or continue the lockbolt patent license exclusive to Townsend, except for retention by Huck of its own right under the patents to make and sell the patented lockbolts, for so long as Townsend maintained for the lockbolts which it manufactured and sold under the license, the prices, terms and conditions of sale Huck established for the lockbolts which Huck manufactured and sold under the title and rights it retained under the same patents. The verbal agreement was no more than the exercise by Huck of its right as the patent owner of the lockbolt patents to grant or extend an exclusive license to another (in this case, Townsend) for the unexpired term of those patents and to require as a condition thereof that its licensee sell the patented lockbolts, which it could legally manufacture only under the license, upon the terms and conditions of sale and prices established by Huck, and the exercise by Townsend of its right to agree to and accept such a patent license.

17. Huck, as owner of the patents and licensor, kept its customers and Townsend, its licensee under the patents, informed by published price lists of the prices, terms and conditions of sale of the patented lockbolts which Huck established and followed in the sale of lockbolts manufactured by it.

18. Townsend manufactured and sold the patented lockbolts under the license GX 17 and, except for occasional deviations, observed and followed substan-

tially the same prices, terms and conditions of sale established and observed by Huck for the sale of the patented lockbolts which Huck manufactured.

19. There is no evidence in this case that the licensee Townsend was granted, or had, or exercised any power or authority to fix prices under Huck's lockbolt patents for Huck, the patent owner, or any other licensee under the Huck lockbolt patents to follow.

20. There have been various contacts between Huck, the patent owner, and Townsend, its licensee, since the patent license agreement GX 17 was entered into. These contacts, as disclosed by the testimony and documentary exhibits, have been in pursuance of the provisions of the patent license agreement GX 17 that the patented lockbolts produced by the two companies be interchangeable, that required quality be maintained, and that standards respecting sizes, finishes and lubricants applied in the manufacture of the patented lockbolts be followed. Such contacts have also been by way of interchanging information to make available technical developments and improvements in the patented lockbolts, and in installation tools and equipment, and respecting joint advertising, all attributable to the purpose of encouraging and increasing the use of the patented lockbolts in the trade. The Court finds that these contacts have been in furtherance of legitimate, normal business motives permissible under the patent license, on the part of both Huck and Townsend, and have not been for the purpose of fixing prices or to enable Townsend to fix or dictate the prices charged for the patented lockbolts.

21. Huck lockbolt patents, under which Huck granted the license GX 17 to Townsend, are conceded to be valid and subsisting and to cover lockbolts which

Townsend has manufactured and sold and is presently manufacturing and selling under the license GX 17.

22. Huck has granted no licenses to others than Townsend under its lockbolt patents, except for a non-exclusive license to Pheoll Manufacturing Co. dated September 26, 1956 (Government Exhibit GX 76), and a non-exclusive license to Standard Pressed Steel Co. dated October 4, 1956 (Government Exhibit GX 77), both of which were limited to the making and selling of lockbolts made of titanium which Huck and Townsend do not make, and neither of which require price maintenance.

Others than Townsend requested licenses under Huck's lockbolt patents, which Huck refused to grant. They are Brown-Line Corporation, Olympic Srew & Rivet Corporation, Illinois Tool Works; Pheoll Manufacturing Co., and Republic Steel Corporation.

These refusals by Huck Manufacturing Company are not shown to have been participated in by or known to defendant Townsend Company, or to have occurred otherwise than by Huck, in the exercise of its own judgment and right to select or reject prospective licensees and to prefer one over others for considerations within its discretion.

There is no evidence that Huck and Townsend could not adequately handle all available trade and commerce in the patented lockbolts.

23. On November 1, 1955 Huck granted a separate license to Townsend (Government Exhibit GX 19) in which Huck grants Townsend a nonexclusive license to make and sell lockbolt stumps and lockbolt collars, and Townsend grants back to Huck a nonexclusive license under improvements thereon which Townsend may make or acquire. There are no price maintenance requirements in this license. The stumps were

not licensed under the license GX 17 of September 14, 1954.

On October 22, 1958 an agreement (Government Exhibit GX 70) was entered into between Huck and Townsend in which Huck and Townsend exchange options to obtain nonexclusive licenses from each other to manufacture and sell under each other's patents tools for installing or setting, and for removal, of lockbolt devices. Only nonexclusive licenses are obtainable by Townsend from Huck or by Huck from Townsend under this agreement. There are no price maintenance requirements in this agreement.

On October 22, 1958, Huck and Townsend entered into an agreement (Government Exhibit GX 71) in which provision was made for Townsend to purchase from Huck tools and equipment made by Huck for the installation and setting, or for the removal, of lockbolt devices; and for Huck to purchase from Townsend tools and equipment made by Townsend for the installation or setting, and for the removal, of lockbolt devices. There is nothing in this agreement which restricts or prevents *Huck from selling its tools* to anyone it chooses, and nothing in the agreement that prevents Townsend from selling its tools to anyone it chooses. There are no price maintenance requirements in this agreement.

On June 25, 1958, Huck entered into an agreement (Government Exhibit GX 72) granting to Townsend a nonexclusive license to manufacture and sell blind lockbolts, illustrated in the drawing Exhibit A attached to the agreement, according to Huck's know-how, specifications and engineering information, and Townsend grants back to Huck a nonexclusive license under improvements thereon which Townsend may make or acquire. This license contains no price maintenance requirements.

24. The so-called cross- or grant-back licenses from Townsend to Huck respecting Townsend's improvements do not in any way restrict or restrain Townsend's use, manufacture or sale of its own improvements, or Townsend's right to grant licenses to others under those improvements. They merely grant Huck the nonexclusive right or permission to make and sell such improvements in common with Townsend or anyone else Townsend may choose to license to make and sell such improvements. These grant-back clauses provide Huck with no power whatever to restrain or monopolize trade in Townsend's improvements. There is no evidence that they are used or have ever been used or are likely to be used to restrain or monopolize trade in Townsend's improvements.

There is no evidence that Townsend possesses or has in prospect any improvements or patents thereon which are or would be subject to the grant-back clauses. The grant-back clauses themselves are nonexclusive and provide no power for restraint or monopolization of Townsend improvements. They are, on the contrary, adverse to restraint or monopoly.

In GX 17, the lockbolt patent license of September 14, 1954, the grant-back complained of is Par. 8 of that agreement, which states:

> "Townsend hereby grants to Huck a nonexclusive, royalty-free license, with the right to sublicense upon any improvements on said lockbolt devices made or acquired by Townsend during the life of this agreement coming within the claims of the licensed patent, or lockbolt devices of the same type which are substitutes of the lockbolts licensed herein by Huck."

This is merely a grant-back to Huck of a nonexclusive license with right to sublicense on Townsend's

improvements. Being nonexclusive, it grants Huck no monopoly upon Townsend's improvements and no power to preclude Townsend or anyone else from making, selling and using those improvements. If the improvement happened to be one that was covered by Huck's own patents, then the only rights Huck would have with respect to it *would arise under its own patents* and not in any way under the nonexclusive grant-back provision of Par. 8. Consequently, the grant-back provision of Par. 8 grants no power to Huck over Townsend's patents on such improvements if any, and provides Huck with no power to prevent Townsend from making, selling or using those improvements or from licensing any others it chooses to do the same. Par. 12a, making the license granted by Huck to Townsend exclusive for the first two years, does not affect Par. 8, the grant-back by Townsend to Huck of a nonexclusive license on Townsend's improvements, for Par. 12a makes exclusive only the license which Huck grants to Townsend under Huck's own patents.

In GX 19, the separate license on stumps which are not included in or subject to GX 17, the grant-back provision is Par. 11, which states:

> "Townsend hereby grants to Huck a non-exclusive, royalty-free license, with right to sub-license on any improvements on said licensed products made or acquired by Townsend during the life of this agreement, coming within the claims of the licensed patent, or products of the same type which are substitutes for the licensed products licensed herein by Huck."

This grant-back provision is entirely nonexclusive, grants Huck no monopoly power whatever over Townsend's improvements nor any right to prevent the

manufacture, sale or use thereof by Townsend or any others whom Townsend chooses and is free to license.

In G70, the tool license option agreement, the grant-back provision by Townsend to Huck is Par. 7, which states:

> "The right and license granted to Huck by Townsend under paragraph 3 above with respect to the elected licensed products identified by Huck under paragraph 5 above shall include a nonexclusive right to license under any United States Letters Patent and applications for Letters Patent now owned or later acquired by Townsend with respect to said elected licensed products."

This is an entirely nonexclusive grant-back; it does not provide Huck with any monopoly or monopoly power over Townsend's improvements, nor any power to prevent the manufacture, sale or use of those improvements by Townsend or any others Townsend chooses and is free to license.

In GX 71, the sales agreement respecting tools, the grant-back provision is Par. 2, which reads as follows:

> "Townsend hereby grants to Huck a nonexclusive right, during the term of this agreement, to sell the beforementioned and described products manufactured by or for Townsend, together with any parts of or replacement for said articles. Townsend agrees that it will make the aforesaid products available to Huck in common with other purchasers."

This grant-back is nonexclusive and only of a right to purchase and sell Townsend's tools in common with others. It gives Huck no monopoly power whatever over Townsend's tools, nor any power whatever to restrain or prevent Townsend's manufacture, use or sale of its tools or license any others to do. They are

made available to Huck only in common with other purchasers.

In GX 72, the nonexclusive license from Huck to Townsend on blind lockbolts, the grant-back provision is Par. 11, as follows:

> "Townsend hereby grants to Huck a nonexclusive, royalty-free license, with the right to sublicense on any improvements on said licensed products made or produced by Townsend during the life of this agreement or products of the same type which are substitutes for the licensed products licensed herein by Huck."

This grants back to Huck only a nonexclusive license respecting Townsend's improvements. It grants Huck no monopoly power whatever over Townsend's improvements and no power whatever to restrain or prevent Townsend from making, selling or using Townsend improvements, or any others Townsend chooses and is free to license.

There is no agreement that prevents or restrains Townsend in any way from making, using or selling Townsend improvements on the lockbolts or licensing others to do the same.

There is no agreement that prevents or restrains Townsend in any way from developing and making and selling lockbolts that would be independent of and avoid Huck's lockbolt patents.

None of the separate licenses and agreements, GX 19, GX 70, GX 71 and GX 72, have any price fixing provisions or agreements whatever.

25. There is no evidence which indicates that the patent arrangement of Huck with Townsend was designed to or did secure to Huck other than a reasonable reward for the use of exclusive patent rights

of which Huck was the owner by the grant to it of the lockbolt patents.

26. There is no evidence that the purchasers and users of the patented lockbolts buy or use them for any reasons other than to utilize the advantages peculiar to them, or that they are prevented or restrained from obtaining other fastening devices for like uses available and obtainable in the market at comparable prices.

27. There is evidence that there are fastening devices other than the patented lockbolts which can be and are used for the same purposes and which are regarded as competitive with the patented lockbolts (R. 822–824), but there is no evidence in the record to define the industry or market in which the patented lockbolts and other fastening devices available for the same purposes and uses are being sold, or to show its magnitude.

28. There is no evidence from which the impact or effect of the combination and conspiracy alleged with respect to the patented lockbolts upon the market for the patented lockbolts and the other fastening devices used and usable for the same purposes can be evaluated or determined.

29. There is no evidence that Huck and Townsend had any intention to or did conspire to restrain or monopolize, or did restrain or monopolize, trade or commerce in lockbolts beyond the limits of the lawful patent monopoly granted to Huck as owner of the lockbolt patents.

Conclusions of Law

I. The Government concedes that under the authority of the decision in *U.S.* v. *General Electric Co.*, 272 U.S. 476, the patent owner who manufactures

and sells the patented articles can license another to make and sell the patented articles and require the licensee, with respect to the patented devices made and sold by the licensee under the licensor's patents, to observe and follow the licensor's prices, terms and conditions of sale.

This decision holds and establishes that it is not a violation of the Sherman Act for a patentee to grant a license to make, use and vend articles under the specifications of his patent for any royalty or upon any condition the performance of which is reasonably within the reward which the patentee by the grant of the patent is entitled to secure; that if the patentee licenses the manufacture and selling of the articles he may limit the selling by limiting the method of sale and the price, provided the conditions of sale are normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly; that one of the valuable elements of the exclusive right of the patentee is to acquire profit by the price at which the article is sold, the higher the price the greater the profit; that when the patentee licenses another to make and vend and retains the right to continue to make and vend on his own account, the price at which his licensee will sell will necessarily affect the price at which he can sell his own patented goods; that the requirement that the licensee adopt and maintain, for the patented devices which it can make legally only under the license, the terms and conditions of sale and prices established and observed by the licensor for the patented devices made by the licensor, is normally and reasonably adapted to secure pecuniary reward for the patentee's monopoly, and does not violate the Sherman Act. This decision and authority has not been overruled.

In *Ethyl Gasoline Corp.* v. *U.S.*, 309 U.S. 436, 456, it is held and established that the patent law confers on the patentee a limited monopoly, right or power to exclude all others from the manufacturing, using or selling of his invention; that the extent of that right is limited by the definition of his invention as its boundaries are marked by the specifications and claims of the patent; that he may grant licenses to make, use or vend, restricted in point of space or time, or with any other restriction on the exercise of the grant and privilege, save only that by attaching a condition to his license he may not enlarge his monopoly and thus acquire some other which the statute and the patent together do not give.

In *U.S.* v. *E. I. du Pont de Nemours & Co.*, 118 Fed. Supp. 41, 224, D.C. Del., it was held and established that the owner of the patents has the right to grant an exclusive license and that such a license in no way violates the provisions of the Sherman Act, and that the patentee has the right to license, including the right to select or reject prospective licensees and to prefer one over others for considerations within its discretion. This was not in any way modified or overruled on appeal to the Supreme Court, 351 U.S. 377.

II. The establishment or fixing of prices and terms and conditions of sale for the patented lockbolts by defendant Huck Manufacturing Company, the owner of the patents, which was followed by its licensee, defendant Townsend Company, for the lockbolts which it manufactured and sold under the license from Huck, is in all material respects the same as that established and held in the *U.S.* v. *General Electric* case referred to above, not to be a violation of the Sherman Act.

III. In the case at bar there is no violation of the Sherman Act by Huck's establishment of the prices, terms and conditions of sale for the patented lockbolts and the following thereof by the licensee Townsend, for it is established law, under the *General Electric* case, that it is not violation of the Sherman Act for a licensee to follow the prices, terms and conditions of sale of the patent owner, by agreement to do so.

It is established law that it is not violation of the Sherman Act for Townsend, in the exercise of its own judgment, to follow Huck's prices and terms and conditions of sale. *U.S.* v. *International Harvester Co.*, 274 U.S. 693, 71 L. Ed 1302, Sylb. 4 and Opinion p. 310, where it is held:

> "The fact that competitors in business may see proper, in the exercise of their own judgment, to follow prices of another manufacturer, does not establish any suppression of competition, or show any sinister domination."

Theater Enterprises v. *Paramount Distributing Corp.*, 346 U.S. 537, 98 L. Ed. 273, Opinion p. 279 and Sylb. 2, where it is stated:

> "Although parallel business behavior is admissible evidence from which the finder may infer an agreement in restraint of trade violative of the Sherman Antitrust Act Sec. 1, such parallel behavior does not itself constitute a Sherman Act offense."

IV. The refusal by Huck Manufacturing Company to grant licenses to manufacture and sell lockbolts under its lockbolt patents to Brown-Line Corporation, Olympic Screw & Rivet Corporation, Illinois Tool Works, Pheoll Manufacturing Company, and Republic Steel Corporation, in the exercise of its own judgment and right to select or reject prospective licensees

and to prefer one over others for considerations within its discretion, is legal and not violative of the Sherman Act as held in the decision in *U.S.* v. *E. I. du Pont de Nemours* referred to above.

V. The so-called cross- or grant-back licenses from Townsend to Huck respecting improvements of Townsend are nonexclusive and provide no power for restraint or monopolization of trade in such improvement, and on the contrary being adverse to restraint and monoply, are not a violation of the Sherman Act.

It is established law, in *Transparent-Wrap Machine Corporation* v. *Stokes and Smith Company*, 329 U.S. 637, 645–648; 91 L. Ed. 563, 570–572, that a covenant by a licensee under a patent license agreement to assign to the licensor patents for improvements is not per se illegal.

Furthermore, it is noted that in the cited case as distinguished from the case at bar, the improvements of the licensee were to be assigned outright to the licensor, which would give the licensor exclusive rights therein, while in the case at bar the grant-back provisions by the licensee give the licensor only a nonexclusive permission to use the licensee's improvements in common with the licensee and with others all of whom the licensee is free to choose and license.

See also *Binks Manufacturing Co.* v. *Ransburg Electro-Coating Corp.*, 281 Fed. (2) 252, 259 (C.A. 7), where it is held that a license-back clause requiring future inventions by the licensee pertaining to method covered by the license to be licensed to the patentee royalty-free, on a nonexclusive basis, with right to sub-license others, is not per se illegal where there is no widespread network of such agreements between competing companies affecting an entire industry.

VI. The Court in a non-jury case, on motion under Rule 41(b), is not required to review the evidence in the light most favorable to the Government; it is required only to determine whether the plaintiff has made out its case by a preponderance of evidence. *Island Service Co.* v. *Perez,* 308 F. 2d 799 (9th Cir. 1962); *Allred* v. *Sasser,* 170 F. 2d 233 (7th Cir. 1948); *United States* v. *Borden Co.,* 111 F. Supp. 562 (N.D. Ill. 1953); *aff'd in part, rev'd in part,* 347 U.S. 514 (1954); *Bach* v. *Friden Calculating Machine Co., Inc.,* 148 F. 2d 407 (6th Circ. 1945); *Moore's Federal Practice,* 1044–45 (2d Ed., 1951). Barron and Holtzoff, *Federal Practice and Procedure,* (2) Ed. 1961 (Vol. 2b) pp. 149–151.

Where the evidence submitted gives equal support to each of two inconsistent inferences, neither is established, and judgment, as a matter of law, must go against the party upon whom rests the necessity of sustaining one of the inferences as against the other. *Penna. R.R. Co.* v. *Chamberlain,* 228 U.S. 333, 339–340, 79 L. Ed. 819, 823.

VII. I conclude upon the evidence submitted that the case at bar is in all material respects the same as and ruled by the decision in *U.S.* v. *General Electric Co.,* 272 U.S. 476, 489, and that it is distinguished in substantially the same respects as the General Electric case from the decisions in *U.S.* v. *Masonite Corp., et al,* 316 U.S. 265; *U.S.* v. *Univis Lens Company,* 316 U.S. 241; *U.S.* v. *Line Material Company, et al,* 333 U.S. 287; *U.S.* v. *United States Gypsum Co., et al,* 336 U.S. 364; *U.S.* v. *New Wrinkle, Inc., et al,* 342 U.S. 371; *Newburgh Moire Co.* v. *Superior Moire Co.,* 237 Fed. (2d) 283–284; *U.S.* v. *Besser Mfg. Co.,* 96 Fed. Supp. 304, 310–311; *US.* v. *Kras-*

nov, et al, 143 Fed. Supp. 184; *U.S.* v. *General Electric Co.,* 80 Fed. Supp. 989—which the Government urges as controlling.

In the case at bar the Court finds no industry-wide price-fixing licensing, no agreement or conspiracy between a plurality of licensees preventing grant of other licenses by the patent owner, no granting of a plurality of price-fixing licenses to a plurality of competiting licensees, no cross licensing by one patent owner creating by contract in another the power to issue licenses and fix prices under patents which are not owned by the licensor, no pooling of independently owned competing patents with price-fixing licenses under the pooled competing patents, no arrangements for control of resale prices of patented devices, and no agreements for fixing prices on unpatented articles—some or all of which practices were found to be controlling aspects of the situations in the cases above mentioned on which the Government relies.

VIII. The Court concludes upon the evidence submitted by the plaintiff, and the law applicable thereto, that the plaintiff has not shown by preponderance of evidence that the defendants have or are engaged in a combination and conspiracy in unreasonable restraint of trade and to monopolize interstate trade and commerce in lockbolts in violation of Sections 1 and 2 of the Sherman Act, and has not shown any right to relief as prayed.

IX. The Court concludes that the plaintiff has failed to prove a violation of Sections 1 and 2 of the Sherman Act for the additional reason that it failed to show that the patent arrangements between Huck

and Townsend were designed to or did secure a reward beyond that to which Huck as the patent owner was legally entitled.

IT IS THEREFORE ORDERED, that judgment be entered herein against the plaintiff dismissing this action and the Complaint filed herein.

Thaddeus M. Machrowicz
THADDEUS M. MACHROWICZ,
U.S. District Judge.

Dated at Detroit, Michigan, this 27th day of February, 1964.

APPENDIX B

In the United States District Court for the Eastern District of Michigan, Southern Division

Civil Action No. 21791

UNITED STATES OF AMERICA, PLAINTIFF

v.

HUCK MANUFACTURING COMPANY AND TOWNSEND CO., DEFENDANTS

ORDER TO ENTER FINAL JUDGMENT NUNC PRO TUNC

On February 28, 1964, Findings of Fact and Conclusions of Law upon Dismissal Under Rule 41(b) of the Federal Rules of Civil Procedure were entered in the above entitled action including and concluding in the order

> "IT IS THEREFORE ORDERED that judgment be entered herein against the plaintiff dismissing the action and the Complaint filed herein."

Pursuant to Rule 58 of the Federal Rules of Civil Procedure and under this separate document

> IT IS THEREFORE ORDERED NUNC PRO TUNC that judgment be entered herein against the plaintiff as of February 28, 1964, dismissing the action and the complaints filed herein.

Thaddeus M. Machrowicz,
THADDEUS M. MACHROWICZ,
U.S. District Judge.

Dated at Detroit, Michigan this 17th day of July, 1964.

APPENDIX C

United States District Court, Eastern District of Michigan, Southern Division

Civil Action No. 21791

UNITED STATES OF AMERICA, PLAINTIFF

v.

HUCK MANUFACTURING COMPANY, INC., AND TOWNSEND CO., DEFENDANTS

ORDER GRANTING DEFENDANTS' MOTION TO SUPPLEMENT RECORD

At a session of said Court, held in the Federal Building, in the City of Detroit, Michigan, on the 19th day of August, 1964.

Present: HONORABLE THADDEUS M. MACHROWICZ, U.S. District Judge.

Defendants having filed a motion to supplement the record in this case, after notice of appeal by plaintiff was filed in this cause; and the Court having heard said motion and having considered arguments of counsel thereon made orally and in briefs submitted to this Court, and having filed its memorandum of reasons why such Motion should be granted,

IT IS HEREBY ORDERED, That defendants' motion to supplement the record in this cause, now on appeal in the Supreme Court of the United States, be and the same is hereby granted.

IT IS FURTHER ORDERED, That the record in this cause be supplemented by entering, as orders of this Court, a "PRE-TRIAL

ORDER" and a "SECOND PRE-TRIAL ORDER" in the form attached to the motion to supplement the record.

Thaddeus M. Machrowicz,
THADDEUS M. MACHROWICZ,
U.S. District Judge.

UNITED STATES DISTRICT COURT, EASTERN DISTRICT OF MICHIGAN, SOUTHERN DIVISION

Civil Action No. 21791

UNITED STATES OF AMERICA, PLAINTIFF

v.

HUCK MANUFACTURING COMPANY, INC., AND TOWNSEND CO., DEFENDANTS

MEMORANDUM ON ORDER GRANTING DEFENDANTS' MOTION TO SUPPLEMENT RECORD

Plaintiff filed a notice of appeal from a decision of this Court dismissing this action, reached on February 28th, 1964. Defendants thereafter filed a motion to supplement the record which is now before the Court.

The motion seeks to supplement the record by entering as orders of this Court two (2) pre-trial orders, in the form attached to the motion, and entitled "PRE-TRIAL ORDER" and "SECOND PRE-TRIAL ORDER." Defendants contend that entry of these orders to supplement the record is necessary in order that the record of proceedings truly disclose what occurred in this Court for the purpose of supplying a true, accurate and complete record for review on appeal.

Proposed pre-trial orders were drafted by the Court upon pre-trial hearings held on October 1, 1962 and

December 21, 1962. Copies thereof were submitted to counsel of record for the purpose of indicating to the Court, prior to entry of such orders, whether they adequately state the position of each party and agreements of counsel as presented at the hearings. Considerable correspondence followed submission of the proposed orders to counsel but, since no express consent to their entry on the record appeared therein, the orders were not filed or entered on the record. Upon a hearing on the motion, both sides admitted a belief that the proposed orders, in the form submitted to them, were entered prior to the trial of this cause.

The forms of orders attached to the motion are identical with the proposed pre-trial orders with one exception. Defendants ask by their motion that additional provisions be added to the "PRE-TRIAL ORDER" as drafted by the Court.

The "PRE-TRIAL ORDER" recites the gist of discussions and agreements made in the course of the pre-trial hearing of October 1, 1962, in the following language:

> Government counsel offered the following information to defense counsel to aid them in preparation for trial;
>
> * * * * *
>
> 7. The Government is proceeding on the same theory of law in this case as it has advanced in briefs submitted in the criminal case. After a re-study of the facts it will advise defendants of its position as to applicability of the General Electric case decision, if any, to this case.
>
> * * * * *
>
> 9. Counsel agreed to confer immediately upon conclusion of a pre-trial hearing in the criminal case scheduled for October 15th, 1962, with reference to matters discussed at this

> hearing and particularly as to information to be submitted by the Government as covered by sub-sections * * * 7 of this pre-trial order.
>
> Government counsel also advised the Court and opposing counsel of its position that facts in the instant case do not fall within the category of cases to which the doctrine expressed in the General Electric decision applies, and that the acts complained of in suit are illegal without application of that doctrine.

A criminal prosecution, based on charges which gave rise to the instant case, was then pending in this jurisdiction. The General Electric case to which reference is made above is *United States* v. *General Electric Co.*, 272 U.S. 476.

The "PRE-TRIAL ORDER" provided for adjournment of the pre-trial hearing to December 21, 1962.

On October 1, 1962 counsel were requested to report to the Court on October 15th, immediately after the criminal case pre-trial, to advise whether a trial date had been set so that trial schedules could also be arranged in the instant case. Counsel appeared pursuant to such request. At that time Government counsel reported that plaintiff is not attempting to have the doctrine of the General Electric case overruled, its contention in this case being that the facts herein do not fall within that doctrine; that while such doctrine is still good law, it is inapplicable here because acts alleged in this suit are illegal without application of the General Electric doctrine. The Government agreed to state its position in writing by December 29th. A letter, dated October 30, 1962, commenting on the Government's position, was received by the Court and copies were furnished to opposing counsel. A copy of such letter is attached hereto.

A memorandum of this "Report" to the Court was entered on the same day in a record of proceedings kept in the office file of this case by the law-clerk of this Court who was present on this occasion.

It is the recital of the events which occurred on October 15th which defendant's motion asks to be added to the "PRE-TRIAL ORDER."

This Court has authority to supplement the record at this stage of the proceedings in order that such record truly disclose what occurred in the trial Court. Rule 75(h), *Federal Rules of Civil Procedure;* 7 Moore's *Federal Practice,* § 75.15(1). The Government does not challenge such authority nor does it object to entry in the record of the proposed pre-trial orders in the form as originally drafted by the Court. It emphatically objects, however, to any change in one of the orders as requested by defendants in their motion.

During arguments on the motion counsel for both sides agreed that the Court may consider separately (1) the request in the motion for supplementation of the record by adding thereto the two (2) proposed pre-trial orders, and (2) the request for additional provisions in the proposed order entitled "PRE-TRIAL ORDER."

There being no objection to grant of the motion in respect to the first request, the motion will be granted, subject to disposition of the second phase of the motion as to whether the "PRE-TRIAL ORDER" should be entered on the record as originally drafted or with the changes proposed by defendant.

With regard to this second phase of the motion, the Government contends that the "PRE-TRIAL ORDER" as originally drafted by the Court fully, adequately and completely states the Government's

position as to applicability, if any, of the General Electric doctrine to this case; that if statements attributed to it were made, they were intended only to convey the information that the General Electric case was not expressly overruled; that the question whether the Government would attack that decision was not and could not be reached in this Court; that it is not a relevant question for this Court's consideration; and that the Government at no time intended to foreclose any future attempts to have such doctrine overruled.

Defendants, on the other hand, argue that their preparation for trial and trial of the case proceeded on the theory that no attempt would be made to in any manner question the doctrine but only to distinguish this case on facts from the General Electric case. Defendants intimate that, had the issue been injected into this case prior to trial, they may have presented their case differently.

This Court makes no attempt to add to the findings of fact and conclusions of law previously filed, by interpreting the meaning of the statements made by Government counsel on October 15th, determining whether any prejudice resulted to defendants by reason of such statements, or whether such statements preclude plaintiff from attacking the validity of the General Electric decision on appeal in this case. It is the considered opinion of this Court, however, that such statements, with a recitation of the circumstances under which they were made, should be found in the record of the case when it is being considered on appeal. The interests of justice will best be served if a full and complete record of all proceedings in the trial Court is available to the appellate court upon its review of the case.

Specifically, the second request in the motion is for addition of the following provision at the end of subsection 7, paragraph 2, page 4 of the "PRE-TRIAL ORDER":

> "On October 15, reporting on the applicability of the General Electric case, the Government stated that it is not attempting to have the doctrine set in the General Electric case overruled and stated only that facts in this case do not fall within that doctrine; that the doctrine is still good law but does not apply as the actions in this case are illegal without application of the doctrine; and that it will write a letter by December 29, describing in what way the facts of this case differ from the facts of the General Electric case. A copy of the letter to the Court, dated October 30, 1962, from the Assistant Attorney General of the United States, Antitrust Division of the Department of Justice, is attached hereto and made a part hereof."

The requested addition to the "PRE-TRIAL ORDER" correctly relates events which occurred on October 15, 1962. The "PRE-TRIAL ORDER" which will be added to the record of this case, under the ruling of this Court on the first phase of defendants' motion, should be changed accordingly, prior to filing.

For reasons stated herein, defendants' motion to supplement will be GRANTED and the record of this case will be supplemented in the manner as prayed for in the motion.

An order will be entered in accordance with the views expressed in this memorandum.

Thaddeus M. Machrowicz
THADDEUS M. MACHROWICZ,
U.S. District Judge.

UNITED STATES DEPARTMENT OF JUSTICE,
Washington, D.C., October 30, 1962.

Re: United States v. Huck Manufacturing Company, Inc., and Townsend Company—Civil Action No. 21791.

Honorable THADDEUS M. MACHROWICZ,
United States District Judge, United States District Court for the Eastern District of Michigan, Federal Building, Detroit 26, Michigan.

DEAR JUDGE MACHROWICZ: In the course of the pretrial conference held in your chambers on October 15, 1962, in the above-captioned case, counsel for defendant Townsend Company requested that the Government provide a statement describing in what way the facts of this case differ from the facts of *United States* v. *General Electric*, 272 U.S. 476 (1926).

In *United States* v. *General Electric* the relevant issue dealt only with the question of the validity under the Sherman Act of the price-fixing clause in a patent license agreement between a patentee and its licensee. The narrow decision in that case was that under those circumstances the price-fixing clause was legal. In the Supreme Court's more recent interpretation of that rule in *United States* v. *Line Material Company*, 333 U.S. 287 (1947), the limited nature of that *General Electric* ruling was emphasized and as the Supreme Court said:

> On the assumption *where a conspiracy to restrain trade or an effort to monopolize is not involved*, a patentee may license another to make and vend the patented device with the provision that the licensee's sale price shall be fixed by the patentee. (304) [Emphasis supplied.]

Applying this rule to the facts of the *Line Material* case the Supreme Court proceeded to strike down an arrangement by which two patentees had cross-

licensed each other and which arrangement also authorized one to fix prices under both patents. The Court characterized such an agreement as establishing an "intention to restrain." (312)

> Even where the agreements to fix prices are limited to a small number of patentees we are of the opinion that it crosses barriers erected by the Sherman Act against the restraint of trade though restraint is by patentee and their licenses. (*Ibid.*)

Since the date of the *Line Material* decision it has been held that mere price fixing, even when not coupled with any other restraints of trade, is nevertheless unlawful when incorporated in a series of patent licenses with substantially all manufacturers in an industry, *United States* v. *New Wrinkle, Inc.*, 342 U.S. 371 (1952), and even when incorporated in patent licenses with a mere plurality of firms in an industry, *Newburgh Moire Co.* v. *Superior Moire Co.*, 237 F. 2d 283–84, (3rd Cir. 1956).

The acts of defendants in this action fall within the prohibited area outlined in the foregoing cases. The complaint in this case charges defendants with having gone beyond a mere price-fixing arrangement. It charges that they have combined price fixing with a secret understanding not to license others and with further agreements to cross-license and grant back all future developments in the lockbolt field as part of a conspiracy to restrain trade and monopolize.

Moreover, on June 29, 1962, Honorable Fred W. Kaess, United States District Judge in this court in a companion criminal action to this captioned case (*United States* v. *Huck Manufacturing Company et al.*, Criminal No. 39017), ruled that the facts asserted in the indictment in that case—which are substantially identical to the facts asserted in the civil com-

plaint in this case—fell outside the *General Electric* doctrine. Specifically, Judge Kaess stated:

> * * * [T]he defendants move to dismiss the indictment for not stating facts sufficient to constitute an offense against the United States. They rely chiefly upon the leading case of *United States* v. *General Electric Co.,* 272 U.S. 476. There, indeed, a price restriction was upheld, but it must be recognized that not all price-restrictive licenses are valid. *United States* v. *Line Material Co.,* 333 U.S. 287; *United States* v. *United States Gypsum Co.,* 333 U.S. 364. Necessarily, the courts will look beyond the price restriction itself and consider the circumstances surrounding the exploitation of the patent. Experience counsels such an approach, for an agreement innocent when considered separately may be part of a plan condemned by the Sherman Act. Thus, the holder of a patent may not do as he pleases with the power granted him under the Patent Act, 35 USC § 154, but is subject in its exercise to the principles of the Sherman Act. Cf. *American Tobacco Co.* v. *United States,* 147 F. 2d 93, aff'd. 328 U.S. 781. See Furth, Price-Restrictive Patent Licenses Under the Sherman Act, 71 Harv. L. Rev. 815.

Accordingly, we submit that the facts of this case fall outside the facts and law of *United States* v. *General Electric,* supra.

Sincerely yours,

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